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STATE PASS USTR FOR J BUNTIN
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TAGS: [ETRD](#) [ECON](#) [EINV](#) [PREL](#) [BEXP](#) [BA](#) [BILAT](#) [ECTRD](#)
SUBJECT: U.S.-BAHRAIN FTA: TRADE, INVESTMENT BOOMING, BUT
PRIVATE SECTOR UNSURE OF PATH AHEAD

REF: A. MANAMA 1956
[1](#)B. MANAMA 1700
[1](#)C. 05 MANAMA 1919

Sensitive but unclassified; please protect accordingly. Not
for Internet distribution.

SUMMARY

[1](#)1. (SBU) The U.S. - Bahrain Free Trade Agreement (FTA) entered into force on August 1, 2006 amid a period of booming U.S. trade with the region. A number of U.S. companies, including Tactics Middle East, Microsoft, Westpoint Home, Kraft, and others have announced substantial new ventures, many of them directly related to the FTA. The Bahraini Economic Development Board (EDB) and the Embassy are each working to track and respond to commercial inquiries related to the FTA. U.S. and Bahraini government officials have taken steps to support the FTA's implementation and encourage its success. However, the GOB continues to rely upon the USG and AmCham for guidance. The Bahraini business community is beginning to understand that the onus ultimately rests with it to secure the benefits of the Gulf's first FTA. End Summary.

TRADE DATA

[1](#)2. (U) The U.S. - Bahrain Free Trade Agreement entered into force on August 1, 2006. U.S. domestic exports to Bahrain during the first three months of FTA implementation (August through October) were up 58.8 percent compared to the same period in 2005. January through October 2006 exports totaled \$395 million, an increase of 51.6% compared with the same period in 2005. This exceeds the growth rate of total U.S. domestic exports to the rest of the Gulf (Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) through October, which reached 41.9%. The growth in U.S. exports to Bahrain was broad-based, covering traditional product lines like vehicles, aircraft and parts, and electrical and mechanical machinery.

[1](#)3. (U) U.S. imports from Bahrain during the first three months of FTA implementation were down 5.25%, due mainly to a decline in U.S. imports of Bahraini textiles and unusually

high U.S. purchases of fertilizer and petroleum in October 2005. However, U.S. imports from Bahrain for January through October totaled \$536 million, an increase of 50.8% compared with the same period in 2005. This compares to the growth rate in total U.S. imports from the rest of the Gulf of 20.6% through October. U.S. imports from Bahrain grew mostly as a result of a new aluminum production line coming into service.

NEW VENTURES

14. (SBU) U.S. firm Westpoint Home announced December 5 that it had finalized negotiations to acquire three of Manama Textiles' four divisions for an undisclosed sum, which officials privately place at between \$100 and \$200 million (Please protect as business proprietary information). Manama Textiles CEO Hamid Nishat told the Ambassador that the recently-implemented FTA had been a significant incentive to Westpoint Home. Manama Textiles exports 75% of its production to the U.S. Under the FTA, these exports are now duty-free.

15. (U) The Ambassador attended the official ground-breaking ceremony for Kraft Foods' \$40 million cheese and beverage plant December 6. The 600,000 square foot factory, which will employ 250-300 workers, is due to be completed in 2007 and will produce cheese and powdered beverages for export in the region.

16. (SBU) Microsoft recently decided to relocate its MENA region headquarters from Turkey to Bahrain. Country Manager Sherif Bayoumi said Microsoft had selected Bahrain for its

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favorable investment climate and regionally competitive cost of living. He noted that EDB had done everything in its power to facilitate Microsoft's decision.

17. (SBU) Arcapita, Investcorp and Kuwait Finance House-Bahrain (KFH) each hold a number of U.S. investments and are open to considering more. KFH-Bahrain Project Development Manager Osama Al Khajah told EconOff November 16 that Second Deputy Chairman Waleed Rashdan had traveled to Colorado October 22 at the invitation of Bahraini Ambassador Nasser Belooshi to study renewable energy-related joint venture opportunities (Please protect as business proprietary information).

18. (U) Tactics Middle East (TME) CEO Scott Revell announced plans July 29 to build a \$60 million car parts factory in Bahrain, employing 100 workers. In addition to the availability of affordable aluminum, Revell cites the FTA as a draw for investment in Bahrain. Revell has said he expected to begin exporting Bahrain-made products to the U.S. in 2007.

INQUIRY TRACKING

19. (SBU) Post's Econ/Commercial Unit currently records an average of thirty FTA-related inquiries per week from U.S. and/or Bahraini entities. These calls range from questions regarding specific FTA provisions to entrepreneurs seeking joint-venture partners. Many of these calls reflect inadequate understanding regarding international trade. Typical are questions such as, "How can I use the FTA to start a business in the U.S.?"

110. (SBU) The EDB plans to compile and consolidate the FTA-related inquiries that it currently receives, as well as those received by other governmental offices, including the Ministries of Industry and Commerce, Finance, and the Central Bank. Post will add the GOB's figures to our database.

ACTIVITIES/PROMOTIONS/REACTIONS

¶11. (U) The International Executive Service Corps implemented a three-part MEPI-funded program from May through November 2006 to educate Bahraini entrepreneurs regarding export technicalities including customs regulations and procedures, shipping procedures, marketing strategies and e-business practices.

¶12. (SBU) Deputy Assistant Secretary of Commerce Vineyard's visited Bahrain September 12 - 14 to celebrate the implementation of the FTA (Ref. B). Vineyard told audiences that the agreement enables the bilateral commercial relationship to catch up to the long-standing strategic relationship, noting that two-way trade could exceed \$1 billion for the first time in 2006. During the visit, Minister of Industry and Commerce Hassan Fakhro stressed that King Hamad is fully committed to the FTA and the bilateral relationship. He cautioned that Bahraini firms would have to improve the quality of their products to penetrate the American market, and hoped that U.S. companies investing in Bahrain would share their technology, training, and management expertise. EDB Deputy CEO Hejres pledged a "fast track, transparent process" for Americans investing in Bahrain. Several interlocutors identified the need for further outreach and education on the FTA so that the benefits of the agreement are spread throughout the business sector.

13 (U) The Ambassador delivered the keynote address at an AmCham luncheon November 2 before an audience of over 100 guests and reporters in which he urged Bahrainis to work with American companies to benefit from the FTA. The Ambassador shared his observations following his return from a four-city Ambassadors' tour in the U.S. to promote trade with the Middle East. He noted that business is booming between the United States and the Middle East and that while Bahrain is currently doing well, Bahrainis would have to compete aggressively to maximize Bahrain's share of trade

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opportunities.

¶14. (U) In an AmCham-sponsored FTA promotional breakfast November 16, Commerce Assistant Secretary for Market Access and Compliance Bohigian said the U.S. welcomes Bahraini investment and noted that the majority of American foreign trade takes place with our FTA partners. He called on the business community to pursue the full benefits of the FTA in the interest of furthering "friction-free" trade in Bahrain and the region. A/S Bohigian responded to questions from the audience following his remarks. As was the case during Commerce Deputy Assistant Secretary Holly Vineyard's visit, several questions illustrated an ongoing desire among many in the local business community for specific guidance on benefiting from the FTA (Ref. A).

¶15. (SBU) The AmCham is planning a trade mission to the United States to raise Bahrain's profile with American businesspeople, reportedly in February or March 2007. The EDB is expected to participate and there is speculation that the Crown Prince will participate in at least a part of the trip.

¶16. (SBU) The Economic Development Board and the Bahrain Chamber of Commerce and Industry formed the Bahrain FTA Implementation Committee (FTAIC) December 2005 to develop a strategy for maximizing the benefits of the FTA. (Ref. C). The FTAIC has since reached out to various entities, including the Bahrain Businesswomen's Society and the AmCham to ensure an inclusive effort. The FTAIC November 12 signed a memorandum of understanding with the National U.S.-Arab Chamber of Commerce to promote the FTA. However, the FTAIC

has been criticized as being long on ceremony and short on substance. One EDB official recently told EconOff that EDB will look increasingly to the AmCham and the USG to help point the way.

Visit Embassy Manama's Classified Website:

<http://www.state.sgov.gov/p/nea/manama/>

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